

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE
Project Staff Report
2008 Second Round Cycle
October 8, 2008

Project Number CA-2008-187

Project Name Mesquite Springs Apartments
Site Address: Southeast corner of Hacienda Avenue and Mesquite Avenue
Desert Hot Springs, CA 92240 County: Riverside
Census Tract: 445.10

Applicant Information

Applicant: DHS Housing Investors, L.P.
Contact: Graham Espley-Jones
Address: 151 Kalmus Drive, Suite J-5
Costa Mesa, CA 92626
Phone: 714-549-4100 **Fax:** 714-549-4600
Email: graham@wchousing.org
General Partners(s) Type: Nonprofit

Information

Set-Aside: Rural
Housing Type: Large Family
Geographic Area: N/A

Eligible Basis

Requested: \$8,804,483
Actual: \$8,804,483
Maximum Permitted: \$14,947,046

Adjustments to Threshold Basis Limit:

Required to Pay Local Development Impact Fees

Tax Credit Amounts	Federal/Annual	State/Total
Requested:	\$897,353	\$0
Recommended:	\$897,353	\$0

Project Information

Construction Type: New Construction
Federal Subsidy: None
Total # of Units: 81
Total # Residential Buildings: 10

Income/Rent Targeting

Federal Set-Aside Elected: 40%/60%
% & No. of Tax Credit Units: 100% - 80 units
Breakdown by %: 10% @ 30%, 10% @ 40%, 50% @ 50%

Selection Criteria	Max. Possible Points	Requested Points	Points Awarded
<i>Cost Efficiency/Credit Reduction/Public Funds</i> Maximum of 20 points	20	20	20
<input checked="" type="checkbox"/> Credit Reduction	20	2	2
<input checked="" type="checkbox"/> Public Funds	18	18	18
<i>Owner / Management Characteristics</i> Maximum of 9 points	9	9	9
<input checked="" type="checkbox"/> General Partner Experience	6	6	6
<input checked="" type="checkbox"/> Management Experience	3	3	3
<i>Housing Needs</i> Maximum of 10 points	10	10	10
<i>Site Amenities</i> Maximum of 15 points	15	15	15
<input checked="" type="checkbox"/> Within 1500 feet of a regular bus stop or rapid transit system stop	3	3	3
<input checked="" type="checkbox"/> Rural project within 1 mile of public library	2	2	2
<input checked="" type="checkbox"/> Rural project within ½ mile of a full-scale grocery store with staples, fresh meat and fresh	4	4	4
<input checked="" type="checkbox"/> Rural Large Family project within ½ mile of public school that project children may attend	3	3	3
<input checked="" type="checkbox"/> Rural project within 1 mile of medical clinic or hospital	3	3	3
<input checked="" type="checkbox"/> Rural project within ½ mile of a pharmacy	2	2	2
<i>Service Amenities</i> Maximum of 10 points	10	10	10
<input checked="" type="checkbox"/> Educational classes (e.g. ESL, Computer training, etc. and aren't same as After School)	5	5	5
<input checked="" type="checkbox"/> Bona fide service coordinator available	5	5	5
<i>Sustainable Building Methods</i> Maximum of 8 points	8	8	8
<input checked="" type="checkbox"/> Energy star rated ceiling fans in bedroom/living room; whole house fan; economizer	2	2	2
<input checked="" type="checkbox"/> Flow restrictors for kitchen & bath faucets or water-saving fixtures	1	1	1
<input checked="" type="checkbox"/> Minimum 1 High Efficiency Toilet (1.3 gpf) or dual flush	2	2	2
<input checked="" type="checkbox"/> Bathroom fans in all bathrooms w/humidistat, timer and outdoor exhaust	2	2	2
<input checked="" type="checkbox"/> Project has nonsmoking buildings or contiguous sections within a building	1	1	1
<i>Lowest Income</i> Maximum of 52 points	52	52	52
<input checked="" type="checkbox"/> Basic Targeting	50	50	50
<input checked="" type="checkbox"/> Deeper Targeting – at least 10% of units @ 30% AMI or less	2	2	2
<i>Readiness to Proceed</i> Maximum of 20 points	20	20	20
<i>State credit substitution</i> Maximum of 2 points	2	2	2
Total Points	146	146	146

Tie-Breaker Information

Tie-Breaker Categories Apply to this Project: **Yes**

First: Housing Type **Large Family**

Second: Calculated Ratio per Regulation 10325(c)(12) **76.148%**

2008 Rents for 2nd Round 2008

<u>Unit Type & Number</u>	<u>% of Area Median Income</u>	<u>Proposed Rent</u> (including utilities)
4 2-Bedroom Units	30%	\$448
6 2-Bedroom Units	40%	\$599
28 2-Bedroom Units	50%	\$748
18 2-Bedroom Units	60%	\$762
4 3-Bedroom Units	30%	\$519
2 3-Bedroom Units	40%	\$692
12 3-Bedroom Units	50%	\$865
6 3-Bedroom Units	60%	\$1,038
1 3-Bedroom Units	Manager's Unit	\$1,038

The general partner or principal owner is Western Community Housing, Inc.

The project developer is Western Community Housing, Inc.

The management agent is Brackenhoff Management.

The market analyst is Novogradac & Company, LLP.

The Local Reviewing Agency has not yet completed a site review of this project. Any negative comments in the LRA report will cause this staff report to be revised to reflect such comments.

Project Financing

Estimated Total Project Cost: \$17,026,857 Per Unit Cost: \$210,208 Construction Cost Per Sq. Foot: \$114

Construction Financing		Permanent Financing	
Source	Amount	Source	Amount
Citi Community Capital	\$8,901,478	CCRC	\$4,104,246
Deferred costs	\$1,147,103	City of Desert Hot Springs	\$3,900,000
Investor Equity	\$6,978,276	FHLB AHP	\$850,000
		Developer Note	\$456,149
		Investor Equity	\$7,716,462
		TOTAL	\$17,026,857

Determination of Credit Amount(s)

Requested Eligible Basis:	\$8,804,483
130% High Cost Adjustment:	Yes
Applicable Fraction:	100%
Qualified Basis Credit Reduction (2%)	\$228,917
Qualified Basis:	\$11,216,911
Applicable Rate:	8.00%
Total Maximum Annual Federal Credit:	\$897,353
Total State Credit:	\$0
Approved Developer Fee:	\$1,148,411
Tax Credit Factor: Multi-Housing Partners, LLC	\$0.86

Applicant requests and staff recommends annual federal credits of \$897,353 based on a qualified basis of \$11,216,911 and a funding shortfall of \$7,716,462.

Cost Analysis and Line Item Review

The requested eligible basis \$8,804,483 is below TCAC's threshold basis limit \$14,947,046. The basis limit was increased by the following extraordinary features: local development impact fees. Staff analysis of project costs to determine reasonableness found all fees to be within TCAC's underwriting guidelines and TCAC limitations.

Annual operating expenses meet the minimum operating expenses established in the Regulations, and the project pro forma shows a positive cash flow from year one.

Staff has calculated federal tax credits based on 8.00% of the qualified basis. Applicants are cautioned to consider the expected federal rate when negotiating with investors. TCAC's financial evaluation at project completion will determine the final allocation.

Special Issues/Other Significant Information: None

Legal Status: Staff has reviewed the Applicant's responses to the questions contained in the Legal Status portion of the Application. No information was disclosed that raised any question regarding the financial viability or legal integrity of the applicant.

Recommendation: Staff recommends that the Committee make a preliminary reservation of tax credits, in the following amount(s) contingent upon standard conditions and any additional conditions imposed by the Committee:

Federal/Annual
\$897,353

State/Total
\$0

Standard Conditions

An application for a carryover allocation must be submitted by **October 31, 2008**, as required by regulation section 10328(d), together with the applicable allocation fee and all required documentation. The time for meeting the "10%" test and submitting related documentation will be no later than six (6) months after the date of the executed carryover allocation (as defined by IRC Section 42 and IRS Notices). The applicant must ensure the project meets all Additional Threshold Requirements for the housing type of the proposed project.

The applicant must submit all documentation required for a Final Reservation no later than February 1 of the year that the building(s) must be placed in service pursuant to Section 42(h)(1)(E)(i) of the Internal Revenue Code of 1986, as amended. The applicant shall provide the Committee a Final Reservation application providing the documentation for the project set forth in Section 10322(i)(1) of these regulations. Failure to provide the documentation at the time required may result in rescission of the Credit reservation and cancellation of a carryover allocation.

TCAC makes the preliminary reservation only for the project specified above in the form presented, and involving the parties referred to in the application. No changes in the development team or the project as presented will be permitted without the express approval of TCAC.

The applicant must pay TCAC a performance deposit and allocation fee calculated in accordance with regulation. The performance deposit must be paid by cashier's check within 20 calendar days of any preliminary reservation. The allocation fee must be paid within a time period specified in the preliminary reservation letter. The allocation fee will be due prior to execution of a carryover allocation or issuance of tax forms, whichever comes first. Additionally, TCAC requires the project owner to pay a monitoring fee before issuance of tax forms.

As project costs are preliminary estimates only, staff recommends that a reservation be made in the amount of federal credit shown above on condition that the final project costs be supported by itemized lender approved costs and certified costs after the buildings are placed in service.

All unexpended funds in reserve accounts established for the project must remain with the project to be used for the benefit of the property and/or its residents, except for the portion of any accounts funded with deferred developer fees.

All fees charged to the project must be within TCAC limitations. Fees in excess of these limitations will not be considered when determining the amount of credit when the project is placed-in-service.

The applicant/owner shall be subject to underwriting criteria set forth in Section 10327 of the regulations through the final feasibility analysis performed by TCAC at placed-in-service.

Credit awards are contingent upon applicant's acceptance of any revised total project cost, qualified basis and tax credit amount determined by TCAC in its final feasibility analysis.

If points were awarded for service amenities, the applicant will be required to provide such amenity or amenities identified in the application, for a minimum period of ten years and at no cost to the tenants.

Applicants that received points for sustainable building methods (energy efficiency) must submit the certification required by Section 10325(c)(8) at project completion.

Applicants that received increases (exceptions to limits) in the threshold basis limit under Section 10327(c)(5) must submit the certification required by Section 10322(i)(2)(P) at project completion.

Additional Conditions

Applicants that received 20 points for readiness to proceed must meet ALL of the following requirements. The applicant must be ready to begin construction within 150 days of the Credit Reservation which is **March 9, 2009**, as evidenced by submission, within that time of, recorded deeds of trust for all construction financing, payment of all construction lender fees, issuance of building permits and notice to proceed delivered to the contractor. Failure to meet this timeline will result in rescission of the Credit Reservation.

Project Analyst: Gina Ferguson